

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 NEA-10 ISO-00 AID-20 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

SPC-03 CIEP-02 LAB-06 SIL-01 OMB-01 PA-03 PRS-01

USIA-15 L-03 DRC-01 /135 W

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R 030824Z OCT 73

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC 7832

INFO :AMEMBASSY ABU DHABI 0688

AMEMBASSY BEIRUT

AMEMBASSY BONN

AMEMBASSY JIDDA

AMEMBASSY LONDON

USMISSION OECD PARIS

C O N F I D E N T I A L KUWAIT 3642

DEPT PASS TREASURY

E.O. 11652: GDS

TAGS: EFIN, KU

SUBJECT: COMPOSITION KUWAIT COMMERCIAL BANK DEPOSITS

REF: KUWAIT 3495

SUMMARY: RESPECTED LOCAL BRITISH BANK MANAGER TOLD EMBOFF HE DOUBTS KUWAITIS REPATRIATING SIGNIFICANT AMOUNTS MONEY BACK TO KUWAIT SINCE OVERSEAS PRIVATELY HELD ASSETS ARE TO LARGE DEGREE FLIGHT MONEY. HE DOES BELIEVE KUWAITIS TENDING KEEP MORE FUNDS AT HOME AND HE SEES TREND TOWARD TRANSFERRING FOREIGN CURRENCY ASSETS IN KUWAIT TO DINARS. BANKER ALSO SENSES GENERALLY INCREASING CONFIDENCE IN DOLLAR AMONG PRIVATE MERCHANTS AND INVESTORS. END SUMMARY

1. DURING CONVERSTION WITH EMBOFF ON CURRENT FINANCIAL AND
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INVESTMENT TRENDS DESCRIBED REFTEL, LOCAL BANKER CHALLENGED

WIDELY HELD VIEW THAT KUWAITIS REPATRIATING SIGNIFICANT AMOUNTS OF FUNDS TO KUWAIT. HE DESCRIBED FUNDS HELD ABROAD BY PRIVATE KUWAITIS AS "FLIGHT MONEY" AND SAID HE DOUBTS KUWAITIS WOULD REPATRIATE LARGE AMOUNTS THIS MONEY EVEN DURING RELATIVELY UNSTABLE MONETARY CONDITIONS WHICH HAVE PREVAILED THIS YEAR SINCE ITS PURPOSE IS TO GUARD AGAINST LOCAL CONTINGENCIES. THIS WOULD NOT PREVENT THEM FROM SHIFTING CURRENCIES AT ANY GIVEN TIME, HOWEVER, WHILE KEEPING ASSETS OVERSEAS.

2. BANKER DOES BELIEVE KUWAITIS SENDING RELATIVELY LESS NEW MONEY ABROAD PREFERRING TO KEEP ASSETS HERE IN KUWAITI DINARS (KDS). HE ALSO BELIEVES THERE SOME TENDENCY AMONG LOCAL DEPOSITORS TO CONVERT DEPOSITS IN KUWAIT BANKS FROM FOREIGN CURRENCIES TO KDS.

3. TO SUPPORT HIS CONTENTIONS, HE CITED CENTRAL BANK STATISTICS (NOT AVAILABLE TO EMBASSY) WHICH SHOW THAT LEVEL COMMERCIAL BANK DEPOSITS HERE HAS REMAINED FAIRLY STEADY OVER PAST YEAR (NOT COUNTING RAISE IN VALUE IN TERMS OF DOLLARS DUE TO DEVALUATION). NONETHELESS, PERCENTAGE OF LOCAL DEPOSITS MAKE UP BY FOREIGN CURRENCIES HAS BEEN REDUCED FROM ABOUT 33 PERCENT IN DECEMBER 1971, I.E., AROUND TIME OF FIRST DOLLAR DEVALUATION, TO ABOUT 25 PERCENT NOW. SOMEWHAT TO OUR SURPRISE, HE CLAIMS DOLLAR DEPOSITS CONTINUE TO COMPRISE BULK OF FOREIGN CURRENCY DEPOSITS HELD IN LOCAL BANKS BY PRIVATE KUWAITIS.

4. ON OTHER MATTERS HE SAID THAT HE HAS SEEN INCREASING EVIDENCE LOCAL TRADERS NOW BELIEVE US GOODS COMPETITIVE FOLLOWING SECOND DOLLAR DEVALUATION EARLIER THIS YEAR. HE SAID LOCAL INTEREST IN EUROBONDS HAS DIMINISHED BECAUSE SHORT-TERM INTEREST RATES ARE EFFECTIVELY HIGHER, A CONDITION WHICH PRESUMABLY CANNOT LAST FOR LONG. HE DISMISSED RUMORS THAT GOK NO LONGER INTERESTED IN MAINTAINING STERLING POUND GUARANTEE, BASED ON INFO HE OBTAINED RECENTLY IN LONDON.

5. COMMENT: BRITISH BANK MANAGER WHOSE VIEWS DESCRIBED ABOVE HIGHLY REGARDED BY LOCAL FINANCIAL COMMUNITY. BASED ON HIS REMARKS, IT NOW APPEARS KUWAITIS MAY NOT HAVE BEEN REPATRIATING AS MUCH MONEY BACK TO KUWAIT AS WE HAD THOUGHT, ALTHOUGH THEY MAY HAVE SHIFTED ASSETS TO GOLD OR STRONG CURRENCIES FROM

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DOLLARS EARLIER THIS YEAR. FYI GOK OFFICIAL REITERATED POINT HE MAKE TO EMBOFF PREVIOUSLY THAT GOK RPT GOK INVESTING RELATIVELY MORE HEAVILY IN LAND, PARTICULARLY IN NORTH AMERICA AS HEDGE AGAINST EXCHANGE RISKS. END FYI. IN KUWAIT ITSELF ALTHOUGH LARGER PORTION ALL BANK DEPOSITS NOW IN KDS PROPORTION OF FOREIGN DENOMINATED BANK DEPOSITS WHICH IN DOLLARS REMAINING STEADY. REMARKS OF BANK OFFICIAL TAKEN TOGETHER WITH OTHER BITS OF EVIDENCE SUGGEST NERVOUSNESS OVER DOLLAR

WHICH HAS EXISTED THROUGHOUT MOST OF 1973 BEGINNING SUBSIDE.
STOLTZFUS

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCIAL RESERVES, HARD CURRENCIES, LOCAL CURRENCIES, BANK DEPOSITS, FOREIGN EXCHANGE, FOREIGN EXCHANGE RATES
Control Number: n/a
Copy: SINGLE
Draft Date: 03 OCT 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: willialc
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973KUWAIT03642
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS STOLTZFUS
Errors: N/A
Film Number: n/a
From: KUWAIT
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19731054/aaaabnpu.tel
Line Count: 117
Locator: TEXT ON-LINE
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: KUWAIT 3495
Review Action: RELEASED, APPROVED
Review Authority: willialc
Review Comment: n/a
Review Content Flags:
Review Date: 20 NOV 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <20-Nov-2001 by willialc>; APPROVED <20-Nov-2001 by willialc>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: COMPOSITION KUWAIT COMMERCIAL BANK DEPOSITS
TAGS: EFIN, KU
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005